May 15, 2014

Aeolus Announces Second Quarter Fiscal Year 2014 Financial Results and Achievements in Lung-ARS Development Program

MISSION VIEJO, CA -- (Marketwired) -- 05/15/14 -- Aeolus Pharmaceuticals, Inc. (OTCQB: AOLS), a biotechnology company developing compounds to protect against radiological and chemical threats with significant funding from the US Government, announced today financial results for the three and six months ended March 31, 2014.

The Company reported a net loss of approximately $437,000, or $0.00 per share for the three months ended March 31, 2014. This compares to a net loss of $5,782,000 (including a non-cash adjustment for increases in valuation of warrants of $5,020,000), or $0.06 per share, for the three months ended March 31, 2013.

For the six months ended March 31, 2014, the Company reported a net loss of $1,132,000 or $0.01 per share. This compares to a net loss of $1,755,000 (including a non-cash adjustment for increases in valuation of warrants of $510,000) or $0.03 per share for the six months ended March 31, 2014.

"During the quarter, we continued to make significant progress towards our goal of filing a pre-Emergency Use Authorization application for AEOL 10150 as a treatment for Lung-ARS," stated John L. McManus, President and Chief Executive Officer. "We expect to complete our current study in rhesus macaque monkeys and report top line results in the third calendar quarter of this year. In addition, we will initiate a series of six mouse efficacy studies during May and June, and plan to file our IND by June as well, so that we can initiate a Phase 1 study in healthy human volunteers this fall. These initiatives, combined with our completed safety and efficacy studies, and our achievements in manufacturing under our contract with the Biomedical Advanced Research and Development Authority ("BARDA") should position us well for a pre-Emergency Use Authorization filing."

Key Accomplishments During the Quarter:

- Notice from the Office of Orphan Products Development at the U.S. Food & Drug Administration (FDA) granting Orphan Drug Designation for AEOL 10150 "for use in patients exposed to radiation following a nuclear accident or detonation in order to treat or mitigate acute radiation syndrome." Orphan Drug Designation entitles the sponsor to a seven-year marketing exclusivity period, clinical protocol assistance with the FDA, as well as federal grants and tax credits.
- Data published from animal model studies and a pilot efficacy study in non-human

primates (NHPs) demonstrating the efficacy of AEOL 10150 as a medical countermeasure (MCM) against the effects of radiation exposure on the lungs. Three papers on studies funded by Aeolus, grant money from the National Institute of Allergy and Infectious Diseases (NIAID), part of the National Institutes of Health (NIH), and contract money provided by BARDA were published in the journal Health Physics, volume 106, number 1, in January 2014.

- Significant progress towards developing large-scale, Good Manufacturing Practice capability for producing AEOL 10150, including:
    - 90% reduction in manufacturing cost of drug substance achieved; further improvements expected upon scale up of production
    - 15,000 vials of final product supplied for human safety studies to support pre-Emergency Use Authorization filing
    - 18 months stability demonstrated for final drug product in new formulation at room temperature; stability testing will continue to five years.

As of March 31, 2014, the Company had approximately $520,000 in cash and cash equivalents and 134,550,068 common shares outstanding. The Company had accounts receivable of $1,839,000 and accounts payable of $2,394,000 on March 31, 2014.

On May 5, 2014, the Company executed a Modification of Contract with BARDA. The purpose of the Modification is to (1) make available $1,777,882 in reimbursement to the Company for actual costs incurred under the first three years of its contract with BARDA, (2) establish an increased provisional indirect billing rate for FY2014 and the rest of the BARDA contract period of performance, and (3) establish a cap on the indirect billing rate for the remaining contract period of performance. The Company received payment of the $1,777,882 on May 15, 2014. The effect of the Modification will be (a) to increase the cash balance of the Company and (b) to increase the billing rate for indirect costs under the contract. The Company believes the reimbursement payment and increased billing rates provide sufficient capital to fund operations for approximately two years.

Results of Operations for the Three Months Ended March 31, 2014

Revenue for the three months ended March 31, 2014 was approximately $1,438,000, versus revenue of $859,000 for the three months ended March 31, 2013. The revenue is from the contract with BARDA announced on February 11, 2011. Higher revenue in 2014 reflects both the timing of the initiation of program items as well as revenue recognition under accounting rules.

Research and development expenses increased to approximately $1,173,000 for the three months ended March 31, 2014, from approximately $618,000 for the three months ended March 31, 2013. The increase in 2014 expenses reflects both the timing of the initiation of program items under the BARDA contract as well as expense recognition under accounting rules.

General and administrative expenses were approximately $702,000 for the three months ended March 31, 2014 compared to approximately $1,003,000 for the three months ended March 31, 2014. The lower expense was primarily due to non-recurring costs related to financing in 2013.

Results of Operations for the Six Months Ended March 31, 2014

Revenue for the six months ended March 31, 2014 was approximately $2,231,000, which compares to revenue of $2,201,000 for the six months ended March 31, 2013. The revenue is from the contract with BARDA announced on February 11, 2011. Higher revenue in 2014 reflects both the timing of the initiation of program items as well as revenue recognition under accounting rules.

Research and development expenses increased to approximately $1,880,000 for the six months ended March 31, 2014, from approximately $1,787,000 for the six months ended March 31, 2013. The increase in 2014 expenses reflects both the timing of the initiation of program items under the BARDA contract as well as expense recognition under accounting rules.

General and administrative expenses were approximately $1,503,000 for the six months ended March 31, 2014 compared to approximately $1,659,000 for the six months ended March 31, 2014. The lower expense was primarily due to absence of non-recurring costs related to financing in 2013.

Corporate Update Conference Call Information

Aeolus will host a conference call on Monday, May 19th at 11:00 a.m. ET to outline the Company's achievements in the second fiscal quarter of 2014 and provide an update on the progress made to date on the BARDA contract and other biodefense development programs. Interested parties may participate by dialing *(855) 644-8125* (US) or *(779) 232-4780* (International), approximately five to ten minutes before the call start time. A replay of the call will be available starting on May 19, 2014, at 2:00 p.m. ET through June 19, 2014, at 11:59 p.m. ET. Interested parties may access the replay by dialing *(855) 859-2056* (US) or *(404) 537-3406* (International) and entering conference ID number 46809798. An archived webcast of the conference call will be available for 90 days on the Investors page of the Aeolus Pharmaceuticals web site at www.aolsrx.com.

Aeolus has filed today with the SEC its Quarterly Report on Form 10-Q for the quarter ended March 31, 2014. Aeolus urges its investors to read this quarterly filing as well as its Annual Report on Form 10-K, also filed with the SEC, for further details concerning the Company. The Quarterly Report on Form 10-Q and the Annual Report on Form 10-K are also available on the Company's website, at www.aolsrx.com.

About AEOL 10150

AEOL 10150 is a broad-spectrum catalytic antioxidant specifically designed to neutralize reactive oxygen and nitrogen species. The neutralization of these species reduces oxidative stress, inflammation, and subsequent tissue damage-signaling cascades resulting from radiation exposure. AEOL 10150 may have a profound beneficial impact on people who have been exposed, or are about to be exposed, to high-doses of radiation in the treatment of oncology.

AEOL 10150 has performed well in preclinical and non-clinical studies, demonstrating statistically significant survival benefit in an acute radiation-induced lung injury model, and was well-tolerated in two human clinical trials. The Company believes it could have a

profound beneficial impact on people who have been exposed, or are about to be exposed, to high-doses of radiation, whether from cancer therapy or a nuclear event.

About Aeolus Pharmaceuticals

Aeolus Pharmaceuticals is developing a platform of a new class of broad-spectrum, catalytic-antioxidant compounds that protect healthy tissue from the damaging effects of radiation. Its first compound, AEOL 10150, is being developed, with funding by the US Department of Health and Human Services, as a medical countermeasure against chemical and radiological weapons, where its initial target indications are as a protective agent against the effects of acute radiation syndrome and delayed effects of acute radiation exposure. Aeolus' strategy is to leverage the substantial investment in toxicology, manufacturing, and preclinical and clinical studies made by US Government agencies in AEOL 10150, including the contract with BARDA valued, with options, at up to $118.4 million, to efficiently develop the compound for use in oncology. For more information, please visit Aeolus's corporate website at www.aolsrx.com.

Forward-Looking Statements

The statements in this press release that are not purely statements of historical fact are forward-looking statements. Such statements include, but are not limited to, those relating to Aeolus' product candidates, as well as its proprietary technologies and research programs, the Company's potential initiation of large efficacy studies in mice and NHPs, as well as a phase 1 study in healthy normal volunteers, the BARDA Contract, and the expected use of proceeds from the financing. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Aeolus' actual results to be materially different from historical results or from any results expressed or implied by such forward-looking statements. Important factors that could cause results to differ include risks associated with uncertainties of progress and timing of clinical trials, scientific research and product development activities, difficulties or delays in development, testing, obtaining regulatory approval, the need to obtain funding for pre-clinical and clinical trials and operations, the scope and validity of intellectual property protection for Aeolus' product candidates, proprietary technologies and their uses, and competition from other biopharmaceutical companies, and whether BARDA exercises one or more additional options under the BARDA Contract. Certain of these factors and others are more fully described in Aeolus' filings with the Securities and Exchange Commission, including, but not limited to, Aeolus' Annual Report on Form 10-K for the year ended September 30, 2013. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

AEOLUS PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share data)

	March 31, 2014	September 30, 2013
ASSETS		

Current assets:		
Cash and cash equivalents	$ 520	$ 869
Accounts receivable	1,839	370
Deferred subcontractor cost	1,402	656
Prepaids and other current assets	96	39
Total current assets	3,857	1,935
Investment in CPEC LLC	32	32
Total assets	$ 3,889	$ 1,966
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 2,394	$ 579
Deferred revenue	1,458	682
Total current liabilities	3,852	1,261
Total liabilities	3,852	1,261
Commitments and Contingencies (Note F)		
Stockholders' equity:		
Preferred stock, $.01 par value per share, 10,000,000 shares authorized:		
Series A nonredeemable convertible preferred stock, 1,250,000 shares authorized as of March 31, 2014 and September 30, 2013, respectively; no shares issued and outstanding as of March 31, 2014 and September 30, 2013, respectively	--	--
Series B nonredeemable convertible preferred stock, 1,600,000 and 1,600,000 shares authorized as of March 31, 2014 and September 30, 2013, respectively; 526,080 and 526,080 shares issued and outstanding as of March 31, 2014 and September 30, 2013, respectively	5	5
Common stock, $.01 par value per share, 200,000,000 shares authorized; 134,550,068 shares issued and outstanding as of March 31, 2014 and September 30, 2013, respectively	1,346	1,346
Additional paid-in capital	183,739	183,276
Accumulated deficit	(185,053)	(183,922)
Total stockholders' equity	37	705
Total liabilities and stockholders' equity	$ 3,889	$ 1,966

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

AEOLUS PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Revenue:				
Contract Revenue	$ 1,438	$ 859	$ 2,231	$ 2,201
Costs and expenses:				
Research and development	1,173	618	1,880	1,787
General and administrative	702	1,003	1,483	1,659
Total costs and expenses	1,875	1,621	3,363	3,446
Loss from operations	(437)	(762)	(1,132)	(1,245)
Non-cash financing charges and change in fair value of warrants (Note B)	--	(5,020)	--	(510)
Net loss	$ (437)	$ (5,782)	$ (1,132)	$ (1,755)
Net loss per weighted share attributable to common stockholders:				
Basic (Note D)	$ 0.00	$ (0.06)	$ (0.01)	$ (0.03)
Diluted (Note D)	$ 0.00	$ (0.06)	$ (0.01)	$ (0.03)
Weighted average common shares outstanding:				
Basic	134,550	94,425	134,550	69,664
Diluted	134,550	94,425	134,550	69,664

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

AEOLUS PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		

Net loss	$ (1,132)	$ (1,755)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	463	309
Change in fair value of warrants	--	510
Change in assets and liabilities:		
Accounts receivable	(1,468)	(738)
Deferred subcontractor cost	(746)	(1,005)
Prepaid and other assets	(57)	(31)
Accounts payable and accrued expenses	1,815	(249)
Deferred revenue	776	1,046
Net cash used in operating activities	(349)	(1,913)
Cash flows provided by financing activities:		
Proceeds from issuance of common stock and warrants	--	3,616
Costs related to the issuance of common stock and warrants	--	(58)
Net cash provided by financing activities	--	3,558
Net decrease in cash and cash equivalents	(349)	1,645
Cash and cash equivalents at beginning of period	869	281
Cash and cash equivalents at end of period	$ 520	$ 1,926
Supplemental disclosure of cash flow information:		
State income taxes	$ --	$ --

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Contact:

John McManus
President and Chief Executive Officer
Aeolus Pharmaceuticals, Inc.
1-(949) 481-9825

Source: Aeolus Pharmaceuticals